

**Statement of Kevin W. McCarthy,
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Senate Finance Committee
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Medicare and Managed Care: Finding Successful Solutions

Mr. Chairman and Senators, my name is Kevin McCarthy. I am a Health and Welfare Benefits Consultant at Towers Perrin. Towers Perrin is a global management consulting firm with nearly 9,000 employees and offices in over 70 cities worldwide.

Since 1994, Towers Perrin has sponsored the *RetireeCHOICES* Coalition, a group of principally *Fortune* 500 employers who sponsor post-retirement health care plans. The Coalition has accumulated a great deal of experience in working with Medicare+Choice HMOs across the country to meet the health benefit needs of retirees.

Over 100 employers have participated in the Coalition, representing over 2.5 million retirees, including salaried, hourly and collectively bargained retirees. While these employers could have a significant impact on the health care market in their own right, their vision has been to foster a competitive retiree medical marketplace by using their collective leverage to improve quality, access, member satisfaction and efficiency of medical health plans.

Mr. Chairman, in your invitation to testify today you wrote that the Committee wishes to learn about the Coalition's efforts to develop service, quality and access criteria for evaluating Medicare+Choice plans, as well as the Coalition's success in negotiating employer premiums. You also asked us to share lessons we have learned along the way and the implications for developing further competition in the Medicare+Choice program.

I can share a perspective based on our experiences assisting employers in the Medicare+Choice market. In doing so, I do not represent any of the employers who participate in the *RetireeCHOICES* Coalition, and my views should not be ascribed to them.

As an overview of the current situation, costs for retiree medical plans have risen dramatically in recent years. According to the Towers Perrin 2001 Health Care Cost Survey, employer health benefit costs for retirees aged 65 and over for all types of health plans combined increased an average of 18 percent for between 2000 and 2001. This followed a 24 percent average increase in costs for the year 2000 for this category. The result is a 46 percent compounded increase in

plan costs for this segment of the population in a two-year period. Moreover, the responding employers continued to absorb most of these increases. In fact, the average retiree share of total costs actually dropped in this year's survey, with some employers choosing not to pass on a proportionate share of the cost increase to their retirees.

Developing Criteria for Evaluating Medicare+Choice Plans.

Employers take their role seriously when selecting health care plans for employees. This is particularly true when it comes to selecting Medicare+Choice programs for their retirees. In our *RetireeCHOICES* experience, employers consider a variety of factors, but usually focus on two main areas:

- *The Special Needs of Seniors* – how well do the Medicare+Choice entities' organizational structure, procedures and systems reflect the special demands of caring for seniors? The areas that often get specific attention are provider networks, quality assurance, quality improvement, utilization management, health risk management, data reporting, member services, account service, and marketing practices.
- *The Special Needs of Employers* – has the Medicare+Choice entity adapted its organizational structure and systems to meet the needs of employer groups and their retirees? This includes accommodating the employer's plan design and special communication needs. While HMOs are used to working with employers in the market for group coverage, Medicare+Choice is principally an individual product market.

The goal of the typical employer's review process is to select the highest-quality, most cost-efficient Medicare HMO in the market for retirees. To do this, employers apply some of the techniques associated with major purchases in their normal business operation, such as a request for proposal, plan interviews, site visits and negotiations during the selection process.

Those techniques are combined with data from specialized sources. Attention is given, for example, to National Commission on Quality Assurance (NCQA) accreditation, any past or present investigations by federal or state regulatory bodies, HCFA appeal and grievance reports, and Health Plan Employer Data and Information Set (HEDIS) reporting. Our *RetireeCHOICES* database provides all of this information and other analysis, including each plan's pharmacy program.

Negotiating Employer Premiums

Although the Coalition's main goals are to ensure quality, access and service, it has also been successful in securing competitive premiums for the employers and the retirees who choose to enroll in Medicare+Choice options.

To foster competition within geographic markets, every Medicare+Choice plan in the country is invited to submit to the Coalition a plan design and premium quote for their operational service areas.

The *RetireeCHOICES* team then benchmarks the national Medicare+Choice data with employer data and uses this information as the central point for negotiations to secure the best deals for Coalition members.

When negotiations are completed, each coalition member is eligible to offer the negotiated Coalition plan to its retirees. Coalition employers enter into individual negotiations with Medicare+Choice plans for alternative rates and benefit arrangements, if they desire.

For 2001, the *RetireeCHOICES* Coalition successfully negotiated with Medicare+Choice plans, representing more than 200 health plan/market combinations.

Following these steps, we assist employers in perhaps the most critical step, which is to present the plans to their retirees as they make the voluntary decision whether to enroll in a Medicare+Choice plan or remain in traditional Medicare.

Lessons Learned

A number of lessons have emerged from these efforts, but I would like to highlight four of them for your consideration:

1. Communications with Retirees Are Key.

Employers have learned the special needs and characteristics of retirees that must be considered in offering Medicare+Choice plans. This includes the need for a coordinated communication program to help retirees understand their choices and guide them through the decision-making process.

The focal point of the employer communication process is the employer-sponsored retiree meeting. As you no doubt know from your own constituent meeting experiences, these types of sessions are perhaps the most effective way to bring a message to this population. The employer's communication campaign is usually the main decision-making factor for retirees; it correlates to success in enrolling more retirees in Medicare+Choice plans and in retiree satisfaction. When considering program changes and budget allocation in the future, I would urge you to keep this in mind. Even if the financial arrangement for health coverage is compelling, retirees still must understand the program before they will join a Medicare+Choice plan.

2. Negative Perceptions of Managed Care and HMOs Must Be Addressed and Balanced.

We have learned that it is necessary to present a more balanced perspective on managed care than the negative perception of managed care and Medicare HMOs that is often portrayed in the media. Employer communication efforts present the pros and cons of joining an HMO. Employers try to remind their retirees that “what makes headlines” is not always representative of the whole story and present the facts about Medicare HMOs.

We know that once a retiree joins a Medicare+Choice plan, he or she usually likes the plan and continues to belong to the plan. This is consistent with HCFA research that shows the same trend. For employer-sponsored Medicare+Choice plans, disenrollment rates have been less than 5 percent.

3. HCFA's Requirements Present Operational Challenges for HMOs and Employers.

We have learned that HCFA's annual process for approval of Medicare+Choice plans' rates and benefits can make it difficult for an employer to effectively plan the Medicare+Choice offerings to their retirees.

I want to note that we have worked constructively with HCFA and our clients on the National Medicare Education Program and similar initiatives. I have been personally involved in helping HCFA staff achieve practical solutions to administrative problems that don't always involve huge sums of money but make a difference in reaching mutually beneficial objectives. These include issues such as:

- streamlining the Medicare+Choice enrollment and disenrollment process,
- creating more leeway for Medicare+Choice plans to develop custom communications for our clients' enrollment campaigns, and
- addressing inconsistencies that have occurred between HCFA policy on the national and regional office level.

These issues and others can play havoc with a national employer's communication and enrollment processes.

4. A Marketplace Subject to Frequent Government Policy Changes and Unpredictable Pricing Can Be Unstable.

Along with retirees, employers are learning how to deal with the service area reductions and cost increases. Employers have been on the front lines in communicating with retirees who have lost access to their Medicare+Choice coverage or fear they might in the future. It may not be appropriate to draw many conclusions about competitive markets for Medicare+Choice coverage from the

period that has followed the Balanced Budget Act of 1997, because the law itself has contributed to destabilizing the Medicare+Choice marketplace.

Furthering Competition in the Medicare+Choice Program

Prior to 1999, we saw the benefits of competition among multiple Medicare+Choice plans in communities across the country. We know that such competition can work to the benefit of Medicare beneficiaries through improved services and benefits, such as prescription drug coverage. It is key now for Congress to put the Medicare+Choice program on a more equitable and competitive basis with traditional Medicare.

As others on this panel can address in detail, the Balanced Budget Act of 1997 greatly curtailed the annual increases in HCFA payment rates to Medicare+Choice plans. HCFA payment rates in most urban areas have increased by less than 3 percent annually for the last four years. The relative level of the HCFA payments has declined from 95 percent of traditional Medicare costs to approximately 90 percent for a number of Medicare+Choice plans.

HCFA payments include no revenue for drug coverage since it is not included in traditional Medicare. Most Medicare+Choice plans are experiencing annual cost increases in the 7 percent to 9 percent range. These cost increases are far greater than the HCFA payment rate increases. As a result, most plans have felt the need to reduce service areas, cut benefits, or increase premium rates.

A critical step toward promoting competition in the Medicare+Choice marketplace would be to address the financial inequities between traditional Medicare and HCFA's payments to Medicare+Choice plans. Then, attention can be paid to retiree communications and the operational burdens placed on Medicare+Choice plans.

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Thank you, members of the Committee, for the opportunity to testify before you today. I would be pleased to respond now to any questions you may have. With your permission, I would also be pleased to provide a more extensive and detailed statement describing the experiences of Towers Perrin's *RetireeCHOICES* Coalition.